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Unilever: 4Q14 and FY14 results feedback

Consumer goods giant Unilever reported FY14 and 4Q14 results on Tuesday (20 January 2015). The company posted lower-than-expected full-year sales after demand for its products in emerging markets (EMs) continued to slow. CEO Paul Polman described it as a “very challenging year” for the industry with “significant economic headwinds and weak markets”. However, he noted that the company delivered another year of “competitive underlying sales growth and margin expansion” despite it being a “period of unprecedented volatility”.

Excluding the effect of acquisitions and unfavourable exchange rates, FY14 underlying sales rose 2.9%, while consensus forecasts had expected a 3.1% YoY rise. Turnover declined by 2.7% YoY to EUR48.4bn including a negative currency impact of 4.6%, while the core operating margin was up 40 bpts at current exchange rates. Free cash flow came in at EUR3.1bn after tax of EUR0.8bn on disposal profits.

Looking at 4Q14, underlying sales growth came in at 2.1%, while turnover increased 2.4% YoY including a positive currency impact of 1.6%. The 4Q14 results were also slightly below expectations on the turnover line because of the slowdown in EMs (as was feared after the recent investor day), but core operating margins improved and are expected to improve further in 2015 and beyond. Core EPS was up 2% in FY14 (up 11% YoY on a constant currency basis). With 57% exposure to EMs, we believe this was a credible performance.

In FY14, revenues were suppressed by slowing EM growth (notably China and Russia - with Brazil and South Africa also mentioned); declining sales in margarine; and foreign exchange weakness. The good news, in our view, is that forex effects are probably out of the way - if currencies remain as they are now, revenue and profit will automatically be up 3% in 2015.

The company also said that developed markets were flat, with a modest pick-up in North America partly offsetting market contraction in Europe. Polman added that globally, Unilever’s markets grew by c. 2.5% YoY, with flat volumes.

Note that there appears to be some confusion about the guidance for FY15. The conference call was more illuminating than the earnings release - and speaks of currency tailwinds in 2015, modest volume growth vs lower prices resulting in 2.5%-4.0% underlying sales growth in constant currency terms and widening margins all resulting in EPS growth for FY15. We estimate EPS growth of 8%-12% in FY15 (core EPS in FY14 was EUR1.61).

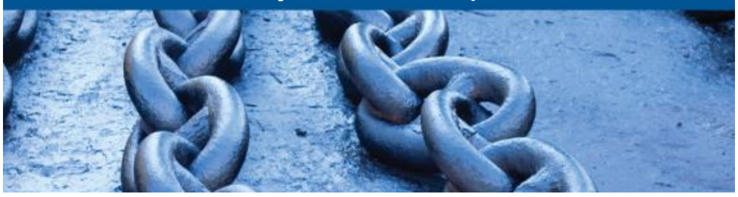
The P/E multiple to December 2015 appears high at 20x but this is not unlike many large multinationals. Although Unilever is not attractively priced at GBP26.71, it remains below a discounted cash flow (DCF) value of GBP30/share. The dividend yield is 3.7%. We view Unilever as a defensive holding in an expensive market and we continue to like the long-term investment case (market-share growth and margin expansion).

We also note that Unilever is up 9% (in US dollar terms) and 15% (in pound sterling) over the past 12 months.

David Gibb

Global Ideas is a newsletter published three times a week (Monday, Wednesday and Friday) and available only to clients of Investor Campus and Anchor Capital. The key objective of this newsletter is to provide ideas for investment in the global investment universe.

We scan the globe looking for good opportunities. We provide our model portfolios, as well as news and views on our watchlist, which is continually reviewed and updated.



Contacts

Anchor Capital reception	**011 591 0677**	**Trading Desk**	**012 665 3461**
Investment/ Sales	mnyoung@anchorcapital.co.za	General Enquiries	info@anchorcapital.co.za
Brokerage/ Trading	fswart@anchorcapital.co.za	Newsletter Enquiries	newsletters@anchorcapital.co.za

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